



FEDERAL RESERVE SYSTEM

Agency Information Collection Activities: Announcement of Board

Approval Under Delegated Authority and Submission to OMB

AGENCY: Board of Governors of the Federal Reserve System.

SUMMARY: Notice is hereby given of the final approval of proposed information collections by the Board of Governors of the Federal Reserve System (Board) under OMB delegated authority, as per 5 CFR 1320.16 (OMB Regulations on Controlling Paperwork Burdens on the Public).

Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the Paperwork Reduction Act Submission, supporting statement and approved collection of information instrument are placed into OMB's public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

FOR FURTHER INFORMATION CONTACT:

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Device for the Deaf (TDD) users may contact (202) 263-4869, Board of Governors of the Federal Reserve System, Washington, DC 20551.

OMB Desk Officer—Shagufta Ahmed --Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 10235, 725 17th Street, NW., Washington, DC 20503.

Final approval under OMB delegated authority of the implementation of the following information collection:

Report title: Annual Company-Run Stress Test Projections.

Agency form number: FR Y-16.

OMB control number: 7100-to be assigned

Frequency: Annual.

Reporters: Bank holding companies (BHCs), savings and loan holding companies (SLHCs)¹ with average total consolidated assets of greater than \$10 billion but less than \$50 billion, and any affiliated or unaffiliated state member bank (SMB) with average total consolidated assets of more than \$10 billion but less than \$50 billion excluding SMB subsidiaries of covered companies.²

¹ SLHCs would not be subject to Dodd-Frank annual company-run stress testing requirements until the next calendar year after the SLHCs become subject to regulatory capital requirements.

² “Covered companies” are defined as BHCs with at least \$50 billion in total assets and nonbank systemically important financial institutions,

Estimated annual reporting hours: 223,200 hours, one-time implementation; 28,768 hours, ongoing.

Estimated average hours per response: 3,600 hours, one-time implementation; 464 hours, ongoing.

*Number of respondents*³: BHCs, 43; SLHCs, 8; and SMBs, 11.

General description of report: This information collection is authorized pursuant Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that specifically authorizes the Board to issue regulations implementing the annual stress testing requirements for its supervised institutions. 12 U.S.C. § 5365(i)(2)(C). More generally, with respect to BHCs, Section 5(c) of the Bank Holding Company Act, 12 U.S.C. § 1844(c), authorizes the Board to require a BHC and any subsidiary “to keep the Board informed as to – (i) its financial condition, [and] systems for monitoring and controlling financial and operating risks” Section 9(6) of the Federal Reserve Act, 12 U.S.C. § 324, requires SMBs to make reports of condition to their supervising

subject to annual supervisory stress tests and semi-annual company-run stress tests; “other financial companies” are defined as BHCs with total consolidated assets over \$10 billion but less than \$50 billion, SLHCs with assets over \$10 billion, and state-member banks with assets over \$10 billion, subject to annual company-run stress tests.

³ Correction to the number of respondents noted in the initial *Federal Register* notice: BHCs, 44; SLHCs, 8; and SMBs, 10.

Reserve Bank in such form and containing such information as the Board may require. Finally, with respect to SLHCs, under Section 312 of the Dodd-Frank Act, 12 U.S.C. § 5412, the Board succeeded to all powers and authorities of the OTS and its Director, including the authority to require SLHCs to “file ... such reports as may be required ... in such form and for such periods as the [agency] may prescribe.” 12 U.S.C. § 1467a(b)(2).

Obligation to Respond is Mandatory: Section 165(i)(2)(A) provides that “financial companies that have total consolidated assets [meeting the asset thresholds] ... and are regulated by a primary Federal financial regulatory agency shall conduct annual stress tests.” Section 165(i)(2)(B) provides that a company required to conduct annual stress tests “shall submit a report to the Board of Governors and to its primary financial regulatory agency at such time, in such form, and containing such information as the primary financial regulatory agency shall require.” 12 U.S.C. § 5365(i)(2)(B).

Confidentiality: As noted under Section 165(i)(2)(C)(iv), companies conducting annual stress tests under these provisions are “require[d] ... to publish a summary of the results of the required stress tests.” 12 U.S.C. § 5365(i)(2)(C)(iv). Regarding the information collected by the Board, however, as such information will be collected as part of the Board’s supervisory process, it may be accorded confidential treatment under

Exemption 8 of the Freedom of Information Act (FOIA), 5 U.S.C.

§ 552(b)(8). This information also is the type of confidential commercial and financial information that may be withheld under Exemption 4 of FOIA, 5 U.S.C. § 552(b)(4). As required information, it may be withheld under Exemption 4 only if public disclosure could result in substantial competitive harm to the submitting institution, under National Parks & Conservation Ass’n v. Morton, 498 F.2d 765 (D.C. Cir. 1974).

Abstract: In October 2012, the Federal Reserve Board approved two final rules for capital stress testing requirements pursuant to the Dodd-Frank Act. The final rules implemented the Dodd-Frank Act Stress Testing (DFAST) requirements, one for “covered companies” and one for “other financial companies.” The Federal Deposit Insurance Corporation (FDIC)⁴ and the Office of the Comptroller of the Currency (OCC)⁵ also issued final rules for DFAST in October 2012 that are nearly identical to the requirements for “other financial companies” issued by the Federal Reserve Board.

Current Actions: On March 15, 2013, Federal Reserve published a notice in the *Federal Register* (78 FR 16502) requesting public comment for 60 days on the implementation of the FR Y-16. The comment period expired on

⁴ October 15, 2012 (77 FR 62417)

⁵ October 9, 2012 (77FR 61238)

May 14, 2013. The Federal Reserve received four comment letters addressing the proposed implementation of this information collection. The comments are summarized and addressed below.

Summary of Public Comments

The Federal Reserve received four comment letters on the proposed implementation of the FR Y-16: two from financial holding companies, one from a trade organization, and one from a modeling service provider. Some general comments were received regarding the report format, instructions, and the timing of implementation. In addition, the commenters focused on specific data items proposed for collection on the results schedules. In some cases, commenters compared the level of detail required in the proposed FR Y-16 to the requirements of the Capital Assessments and Stress Testing information collection (FR Y-14A/Q/M; OMB No. 7100-0341) applicable to BHCs with \$50 billion or more in total assets.⁶ Lastly, one commenter asked for clarification regarding whether to incorporate changes from the Federal Reserve's revised approach to risk-based and leverage capital

⁶ The FR Y-16 reporting requirements are tailored to the \$10-\$50 billion companies and require significantly less granular reporting segmentation relative to the FR Y-14A Summary Schedule that companies with greater than \$50 billion in assets use to report the results of their company-run stress tests.

requirements for banking organizations (Revised Approach) into their capital projections under the supervisory scenarios.⁷

As noted in the initial *Federal Register* notice, the Federal Reserve, the OCC, and the FDIC (the agencies) each developed and requested public comment on nearly identical reporting forms⁸ to implement the mandatory Dodd-Frank reporting requirements for the \$10-\$50 billion companies. Accordingly, the Federal Reserve has continued to work closely with these agencies in considering all public comments received. The following is a detailed discussion of the comments received.

Detailed Discussion of Public Comments

A. General Comments

In order to ensure data consistency, the Federal Reserve proposed to define or map the FR Y-16 reporting requirements to the mandatory Consolidated Financial Statements for Holding Companies (FR Y-9C; OMB No. 7100-0128) and the Consolidated Report of Condition and Income (Call Report) (FFIEC 031/041; OMB No. 7100-0036) line items and organize the data in a similar (but not identical) fashion to the FR Y-9C or Call Report, wherever possible. Other reporting conventions, such as technical reporting

⁷ <http://www.federalreserve.gov/newsevents/press/bcreg/20130702a.htm>

⁸ There are no material differences among the agencies' proposed reporting forms.

instructions, were also designed to be consistent with the FR Y-9C or Call Report.

Two commenters indicated that many firms do not currently conduct stress test exercises using the FR Y-9C or Call Report segmentation of data and format. These commenters asserted that it would be a significant challenge to map their current internal stress testing processes to the FR Y-9C or Call Report format. Accordingly, these commenters requested the Federal Reserve and the other agencies consider further delaying implementation of their respective reporting requirements and limiting the data submission requirements to only the 12 line items requested for each scenario in the proposed FR Y-16 summary schedule. Another commenter supported the FR Y-9C or Call Report segmentation, asserting that using the proposed FR Y-16 segmentation and reporting format is consistent with its internal approach to modeling.

The Federal Reserve believes that the proposed reporting forms and timeframe would not place undue burden on institutions. Notably, implementation of the stress test requirements has already been delayed for the vast majority of \$10-\$50 billion companies.⁹ Furthermore, the FR Y-16 report will follow the precedent established by the FR Y-14 with respect to

⁹ October 12, 2012 (77 FR 62396)-(12 CFR 252.153, 252.157).

utilizing the FR Y-9C reporting as the basis for data segmentation requirements.

The consistent application of data definitions is an overarching FR Y-16 requirement in order to ensure that the Federal Reserve, the other agencies, FR Y-16 report filers, and the public would be able to interpret and understand the data sources and results, particularly when mandatory company disclosure of the summary results under the severely adverse scenario becomes effective in 2015. The existing FR Y-9C and Call Report formats provide a format that is well-understood and utilized by Federal Reserve and the industry. Using the FR Y-9C and Call Report reporting format would also ensure a high level of consistency for the data provided and would facilitate the assessment of the results.

The Federal Reserve will utilize the proposed FR Y-16 reporting segmentation of data based broadly on the FR Y-9C and Call Report data segmentations and definitions as presented in the proposed reporting form and instructions. Further, in order to ensure consistency between the proposed FR Y-16 instructions and the instructions for the FR Y-9C and Call Report, the Federal Reserve has revised the presentation format of the proposed FR Y-16 to provide line-by-line instructions consistent with the FR Y-9C and Call Report, wherever practical.

In addition, one commenter suggested the application of generalized, bank-developed loss assumptions for immaterial portfolios. The commenter noted that an immaterial portfolio exception is allowed for firms with greater than \$50 billion in assets for the FR Y-14 submissions and that this exception would reduce burden on \$10-\$50 billion companies. While the FR Y-14 Q/M for BHCs with \$50 billion or more in total assets allow for optional reporting of immaterial data for certain schedules, these data are *input* data used by the Federal Reserve to conduct supervisory stress tests. No materiality reporting thresholds have been defined for the *output* data for company-run stress tests for these larger companies.¹⁰ The Federal Reserve considered the burden on institutions for internally calculating losses for immaterial portfolios for the \$10-\$50 billion companies and determined that providing a safe harbor that defines immaterial portfolios, where no or little consideration of the risk of these portfolios is undertaken, would be contrary to the purpose of a company-run stress test and could unintentionally mask or cause institutions to erroneously conclude that the aggregation of immaterial portfolios would always pose little or no risk to an institution.

Although stress testing should be applied to all exposures, the same level of

¹⁰ If a BHC does not complete the schedules for immaterial portfolios for the FR Y-14 Q/M collection of data to run supervisory stress tests, the Federal Reserve assigns losses to the immaterial portfolios in a manner consistent with the given scenario to produce supervisory estimates.

rigor and analysis may not be necessary for lower-risk, immaterial portfolios.¹¹ For such portfolios, it may be appropriate for a company to use a less sophisticated approach for its stress test projections, assuming the results of that approach are conservative and well-documented.

Accordingly, the Federal Reserve notes that immaterial portfolios should not be subject to an exemption from the FR Y-16. The proposed interagency supervisory guidance on implementing Dodd-Frank Act company-run stress tests for the \$10-\$50 billion companies offers suggestions on appropriate methodologies for estimating losses and revenues associated with immaterial portfolios.¹²

B. Data Items – Results Schedule

Balance Sheet

One commenter requested reporting common stock, retained earnings, surplus, and other equity components as a single line item. The commenter asserted that separately reporting these four elements of capital would add no value for the purposes of understanding projected regulatory capital or tangible common equity. The Federal Reserve will combine the

¹¹ Immaterial portfolios are defined as those that would not present a consequential effect on capital adequacy under any of the scenarios provided.

¹² <http://www.federalreserve.gov/newsevents/press/bcreg/20130730a.htm>

aforementioned capital components into one line item to be reported as “equity capital.”

Two commenters stated that separating 1-4 family construction loans from all other construction loans would require more detailed reporting for the FR Y-16 than what is required for the larger firms that report using the FR Y-14A. Segmentation of data is particularly relevant to these smaller organizations since they have material concentrations in this product type and a significant amount of the industry’s losses during the most recent economic downturn emanated from this product. These data would provide necessary information for the institutions to effectively manage risk and appropriately assess and plan for their capital needs. Therefore, this reporting requirement is being implemented as proposed.

One commenter stated that gathering available-for-sale (AFS) and held-to-maturity (HTM) balances for U.S. government obligations and obligations of government sponsored entities (GSE) would require more detailed reporting for the FR Y-16 than what is required for the FR Y-14A. Another commenter suggested separating GSE obligations from other government obligations on the FR Y-16 balance sheet consistent with the treatment on the FR Y-9C and Call Report income statement.

While the FR Y-14A collects only total AFS and HTM balances on the balance sheet schedule, the FR Y-14 reporting series requires more granular data than proposed for the FR Y-16 on government securities and GSE exposures through other schedules within the report. In addition, the reporting requirements for the FR Y-9C and Call Report balance sheet require more detailed information on AFS and HTM GSE obligations relative to the reporting requirements for the FR Y-16. Further, the FR Y-14A also collects *other than temporary impairment* (OTTI) at the Committee on Uniform Security Identification Procedures level for GSE obligations that have associated OTTI losses, resulting in significantly more granular reporting requirements in these instances relative to the proposed FR Y-16 reporting requirements. Accordingly, the Federal Reserve will implement as proposed the reporting requirements related to AFS and HTM securities and for U.S. government obligations and obligations of GSEs. This approach will facilitate projections of net income and regulatory capital over the planning horizon.

Several commenters stated that the level of detail required by the balance sheet memoranda items were not informative or necessary to the loss estimation process, or entailed more detail than what was required by the FR Y-14A. Specific memoranda items that were cited by commenters

included troubled debt restructurings and loans secured by 1-4 family residential properties in foreclosure. Based on this comment, the Federal Reserve also evaluated the utility of another balance sheet memoranda item: loans and leases guaranteed by either U.S. government or GSE guarantees (i.e., non-FDIC loss sharing agreements). The Federal Reserve agrees that these memoranda data items are already captured within the FR Y-16 reporting requirements for loans and leases and that eliminating these items from the reporting template would not affect an institution's ability to project pre-provision net revenue, net income, or regulatory capital in order to assess their capital needs under stressed conditions. Accordingly, the Federal Reserve will eliminate these three proposed supplemental balance sheet memoranda reporting items.

One commenter requested combining retail and wholesale funding into one line item for total funding, suggesting that separating these types of deposits from one another would involve a disproportional amount of work and would affect other company-run models, thereby adding unnecessary complexity and burden.

The breakdown of deposits between retail and wholesale is facilitated through the subsidiary bank Call Report data and the proposed FR Y-16 instructions indicate that institutions should use the Call Report

segmentation definitions to project these line items. In addition, retail and wholesale funding have historically reacted differently under stressed economic conditions and projecting the retail and wholesale deposit structure throughout the planning horizon as proposed would provide useful information to the institutions and the Federal Reserve with respect to how an institution internally assesses capital adequacy, plans for their capital needs, and manages risk. Therefore, the Federal Reserve will implement this reporting requirement as proposed.

The same commenter noted that separately modeling average rates for each type of deposit would also involve a significant amount of work and potentially affect other company-run models. The commenter's observation highlighted a departure in the FR Y-16 from the reporting format and data segmentation used in the FR Y-9C and Call Report. The Federal Reserve agrees that gathering data at a level of granularity in order to calculate and project average rates under the three scenarios for various asset and liability items (e.g., total loans, securities, retail funding, wholesale funding, interest bearing deposits, trading liabilities, and other liabilities) could involve a significant amount of effort and could potentially affect other models that firms utilize. Furthermore, the average rate information is not a necessary data input to project losses, pre-provision net revenue, or capital. The

additional burden placed on institutions to calculate the projected average rates could unnecessarily distract institutions from the primary goal of the annual company-run stress test – to effectively estimate the possible impact of an economic downturn on a firm’s capital position in order to plan for capital needs and identify and manage risk. Therefore, the Federal Reserve will remove all proposed average rate memoranda items from the balance sheet schedule of the FR Y-16.

Income Statement

Two commenters requested eliminating the income statement memoranda item for net gains (losses) on sales of other real estate owned (OREO). One commenter noted that this element could effectively be combined with forecasting of other OREO expenses. The other commenter stated that the level of detail for this element is more granular than what is required for the FR Y-14A report. Gains or losses on OREO are captured in the pre-provision net revenue metrics worksheet of the FR Y-14A schedule; therefore, this requirement would not be more burdensome for the \$10-\$50 billion companies. Nevertheless, the Federal Reserve acknowledges that gains and losses on OREO would already be captured within the noninterest income statement memoranda item “itemize and describe amounts greater than 15% of noninterest income” or in “itemize and describe amounts

greater than 15% of noninterest expense” when the amount meets the 15% threshold required by the proposed FR Y-16. Therefore, the Federal Reserve will remove the proposed line item segmentation for “Net gains (losses) on sales of other real estate owned” memoranda item on the income statement as this data item would be appropriately captured under another line item when the gain or loss amount exceeds 15% of other income or expense.

C. Regulatory Capital

One commenter asked for clarification regarding the calculation and reporting of regulatory capital and risk-weighted assets (RWAs), noting the expectation that capital and RWA calculations and definitions would change over the planning horizon as new rules are implemented (specifically noting new definitions when the Federal Reserve’s Revised Approach is adopted). In addition, this commenter also requested clarification on the calculation of tier 1 non-common capital elements in the proposed reporting form.

Tier 1 common equity is not defined by regulation or rule for institutions with total assets of less than \$50 billion. Generally, a \$10-50 billion company should measure its regulatory capital levels and regulatory capital ratios for each quarter in accordance with the rules that would be in effect during that quarter. With the Revised Approach, companies subject to the Federal Reserve’s rules implementing Dodd-Frank Act stress tests would

need to measure their regulatory capital levels and regulatory capital ratios for each quarter in accordance with the transition arrangements in the Revised Approach.¹³ Thus, incorporating the Revised Approach into the 2014 stress test cycle would require \$10-\$50 billion companies to transition estimated capital levels and ratios to the definitions from the Revised Approach in their projection of the last four quarters of the planning horizon.

Requiring \$10-\$50 billion companies to transition to the Revised Approach during the planning horizon for the 2014 test and model alternative capital calculations in the middle of the planning horizon would add operational and regulatory complexity and increase the potential or likelihood of erroneous calculations or assumptions. This complexity and increased risk of error could distract a \$10-\$50 billion company from focusing on conducting company-run stress tests that capture salient risks to the company and provide a meaningful forward-looking assessment for the purposes of assessing the company's capital adequacy under various scenarios. Finally, as the \$10-\$50 billion companies are not required to publicly disclose the results of the stress tests conducted in the 2014 stress test cycle, the additional burden of implementing the Revised Approach in

¹³ <http://www.federalreserve.gov/newsevents/press/bcreg/20130702a.htm>

the 2014 stress test cycle will not provide the public with insight into a firm's capital adequacy under hypothetical stressful circumstances.

For these reasons, the Federal Reserve has, in an interim final rule, provided \$10-\$50 billion companies with a one-year delay in incorporating the Revised Approach into their Dodd-Frank Act company-run stress tests. Specifically, \$10-\$50 billion companies are not required to incorporate the changes from the Revised Approach into their company-run stress test conducted in the stress test cycle that begins on October 1, 2013. Instead, \$10-50 billion companies, as described under the interim final rule, will be required to estimate their pro forma capital levels and ratios over the planning horizon using the capital rules in place as of the beginning of the 2014 stress testing cycle on October 1, 2013.

There are three line items in the proposed FR Y-16 report that would be specifically affected by the Revised Approach: tier 1 common equity capital, non-common capital elements, and RWAs. Consistent with the requirements of the proposed interim final rule, the Federal Reserve will remove the tier 1 common and non-common capital line items, and the associated equity ratios, from the Results Schedule for the initial respondent panel that would be submitting a report for the 2014 stress test cycle. The

Federal Reserve will provide information regarding the capital and RWA calculations in the final instructions.

D. Technical Changes/ Other Items

In response to a few technical (non-substantive) comments received, some additional minor changes will be made in the final reporting form and instructions. These changes include clarified reporting instructions for income statement memoranda items; new detailed technical reporting instructions and the elimination of the contact information schedule as this information will be collected through the Results Schedule cover sheet and the Federal Reserve data collection application.

Board of Governors of the Federal Reserve System, September 24,
2013.

Robert deV. Frierson
Secretary of the Board.

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